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An Analysis of Category Management of Service Contracts

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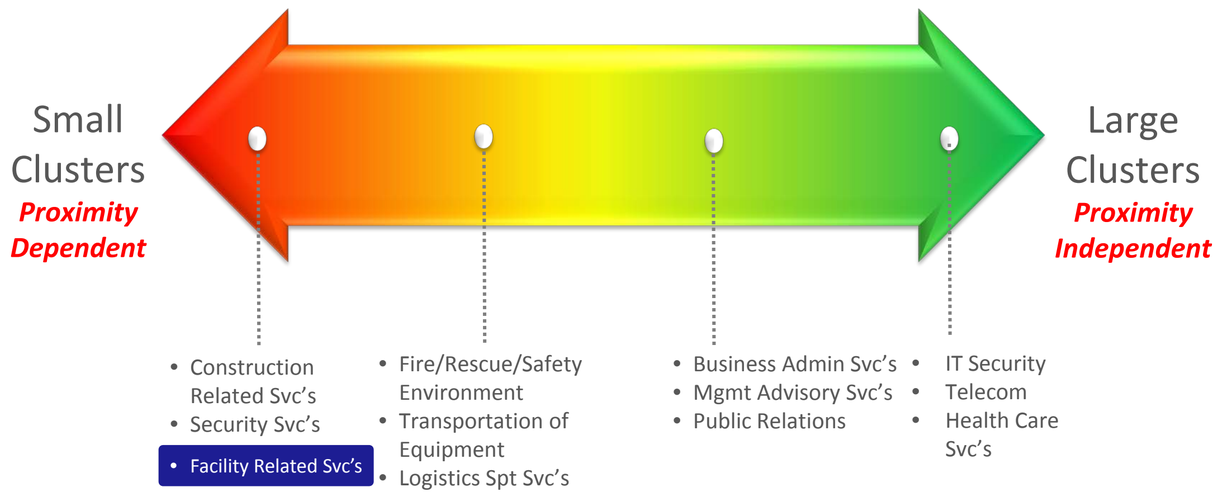
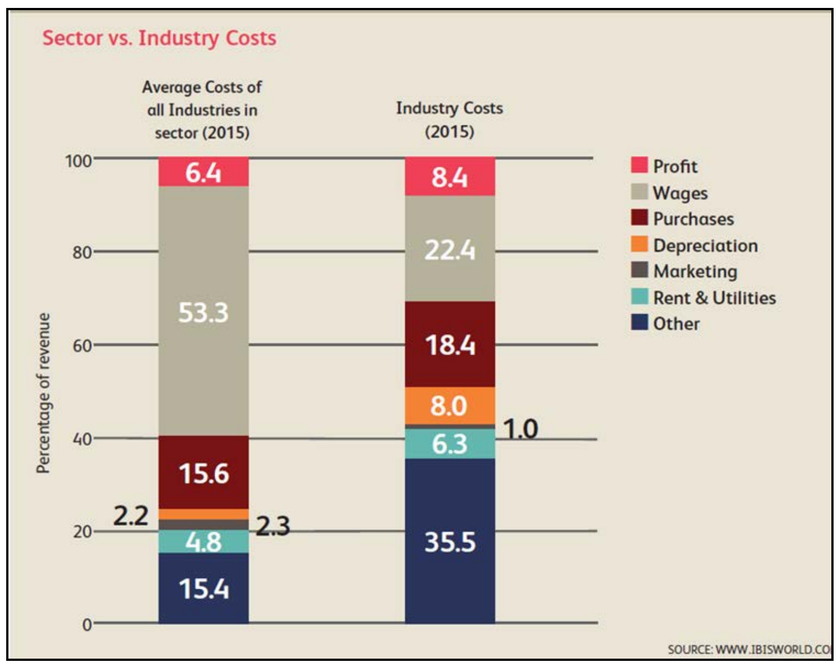
Abstract

In an increasingly budget-constrained environment, the Department of Defense (DOD) must maximize the value of fiscal resources obligated to service contracts According to the Government Accountability Office report "Strategic Sourcing" published in 2013, over half of procurement spending was obligated to service contracts between 2008 and 2013. Therefore, this research focused on identifying rate, process, and demand savings for common recurring DOD service requirements. We developed a methodology to standardize analysis of service requirements to identify relevant cost drivers. Furthermore, a clustering continuum was created to organize services based on proximity from between the customer-supplier base. Utilizing commercial business mapping software, we analyzed the cost driver data, produced visualizations, and illustrated strategic opportunities for Category Management initiatives. Requirements for Integrated Solid Waste Management (ISWM) within the Los Angeles area were evaluated using the software and methodology to demonstrate a model for practical application. This research resulted in two findings: (1) rate and demand savings were inconclusive, but suggested opportunities do exist, and (2) significant opportunities for process savings exist across the DOD. Further research is needed to quantify rate and demand savings and identify other opportunities to achieve efficiencies through Category Management of service requirements. We also recommend that future research focus on proximity-independent services.



Clustering Continuum



Cost Drivers of Integrated Solid Waste Management

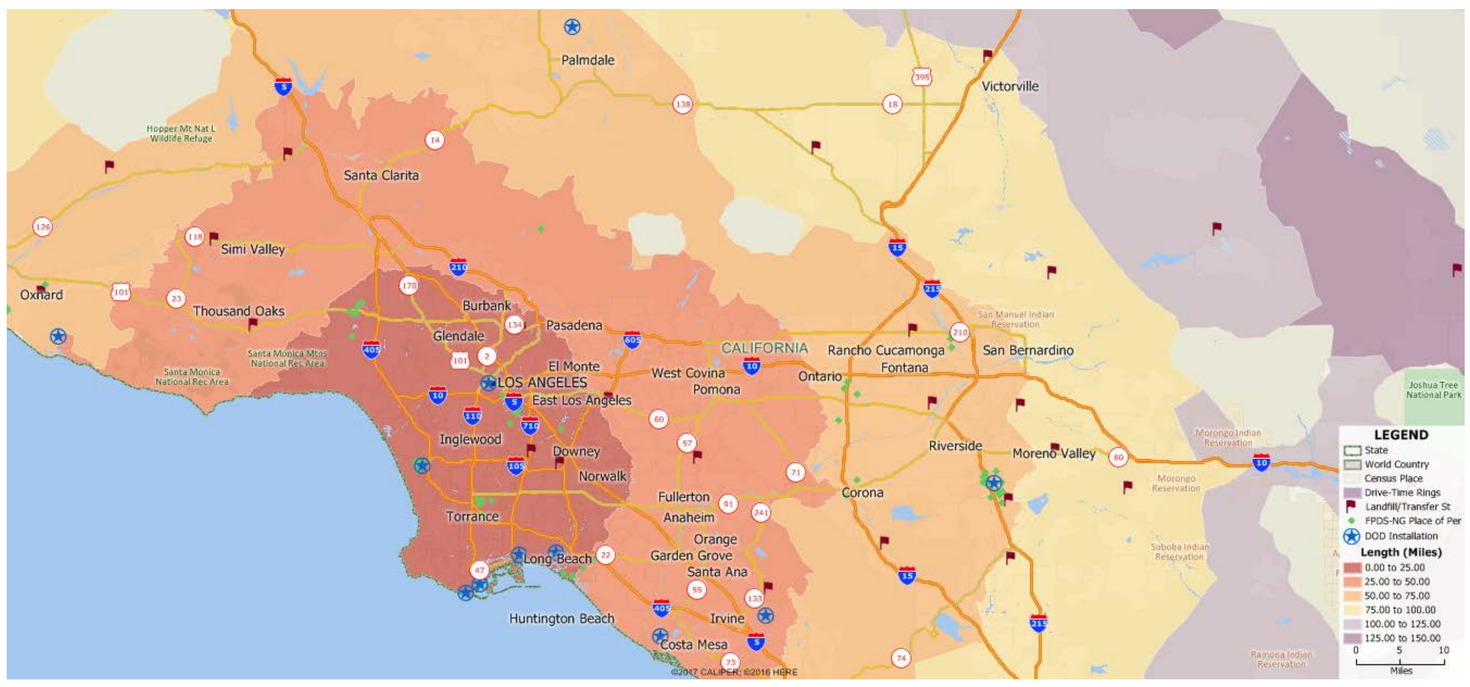
Methods

The ACF Model

1. Identify DOD requiring activities for a given service
2. Identify cost-driver market intelligence relevant to developing clusters
3. Integrate cost-driver market intelligence into commercial mapping software
4. Use cost-driver market intelligence to determine optimal cluster size.

Results

- Procuring ISWM Services within a 100-mile driving range from LA AFB
  - 15 DOD Installations
  - 151 Places of Performance (e.g. off-base commissaries, office parks etc…)
  - 166 total locations procuring the same ISWM service over 5-year period



DOD ISWM Service Requirements near LA AFB

Recommendations

- Our research suggests that the DOD could potentially realize 5,535.88 hours of process savings—395.42 hours per contract—over a five-year period, should the 14 other DOD installations in the Los Angeles area fulfill their ISWM requirements using the IDIQ awarded at Edwards AFB
- There are substantial opportunities for achieving process savings through Category Management of common, recurring DOD service requirements, but additional research is required to quantify and thus prove rate and demand savings

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